



Remarks For

The Hon. Steven C. Preston  
Administrator  
U.S. Small Business Administration

Delivered At The

**CREDIT UNION NATIONAL ASSOCIATION  
2007 GOVERNMENTAL AFFAIRS CONFERENCE**

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Paul, thank you for the warm introduction. It is a pleasure to join you for the Credit Union National Association's annual governmental affairs conference. I appreciate Dan Mica's invitation to join you.

America's credit unions are well represented today with 4,000 credit union members, directors, and employees here. I commend you for taking the time to come to Washington and share the credit union philosophy of "people helping people." The good work you do every day ensures that your members continue to have access to affordable financial services.

I look forward to working with the nation's nearly 8,500 credit unions to better serve the small business community, especially those in certain target markets like veterans and underserved communities, to make sure they have access to affordable credit.

There is so much good about what Credit Unions and the Small Business Administration do, and I think we can expand our impact if we work together in areas where we have a common objective.

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SBA has been there to help many of our best known corporate icons get their starts. Names like Intel, America Online, Outback Steakhouse, Apple Computer, Amgen, Ben & Jerry's, Callaway Golf, Staples, Under Armour, Nike, and Federal Express.

Today, the Small Business Administration lends or guarantees more than \$78 billion in loans and investments. It helps small business procure a fair share of government contracts, a record \$80

billion in 2005. Last year, SBA and its technical assistance partners counseled nearly 1.5 million entrepreneurs and its website received 26 million hits. Through its Office of Advocacy, SBA helps protect small business from harmful new government regulations, and through its National Ombudsman it helps small business deal with unfair application of existing regulation. We are a small agency with a very big reach.

I've been at SBA for seven months now, after 24 years in business. The first major issue I had to address coming into the agency was in our disaster lending business. The agency provides low interest, long-term disaster loans to homeowners and small businesses, and, like many other levels of government, was overwhelmed by the 2005 hurricanes.

The agency received more than 420,000 loan applications and approved \$11 billion, almost three times the dollars of the next largest disaster in agency history. This demand left SBA struggling to meet the needs of disaster victims in a timely fashion.

Some 139 credit unions with nearly 680,000 members were impacted by Hurricane Katrina. I know our friends here from Mississippi and Louisiana appreciate all that America's credit unions have done to support them in their recovery. Your contribution through the National Credit Union Foundation of over \$3.5 million went a long way to help families rebuild.

I came to the agency almost 11 months after Katrina. While SBA had made progress addressing the disaster's challenges, 120,000 disaster victims were still somewhere in our process.

Last summer, we reengineered our disaster loan processes, investing thousands of hours to redesign our operational processes. The results we obtained through these reforms have been remarkable:

- \* SBA reduced backlogs by over 90 percent, and the age of that backlog from 2 1/2 months to under eight days;
- \* Of 160,000 applicants with approved loans from the 2005 Gulf hurricanes, 98 percent have now either received all or some of their loan money, or have chosen not to proceed;
- \* We have put \$5 billion in SBA disaster assistance funds to work.

Admittedly, I came to this role with a bias toward operational solutions because of my business background. But it appears to me that when there is a problem in government, we often try to address it with a new policy or a new law when the solution may be fixing a process – that is, an operational solution. That is certainly what we saw with our disaster program.

Since 2001, SBA has made tremendous progress in becoming more efficient. Salaries and expenses are down 31 percent while at the same time our core lending, contracting, and counseling programs have grown dramatically.

In our best known programs, we guarantee loans to small businesses and provide capital to equity funds that invest in small business. These programs enable credit unions and equity investors to stretch farther in providing capital to small businesses that may not have access to it. Although the government funds the agency's operational costs, these programs are self-funding.

Since 2001, SBA's total credit portfolio has grown to a total of \$78 billion, up 56 percent since 2001 and the number of loans we back has doubled. Importantly, more than 32 percent of all SBA-approved loans last year went to minority borrowers. In fact, the number of loans approved for African Americans, Hispanics, and Asian Americans all rose to record levels. We still see opportunities to do more.

Out of 8,462 federally-insured credit unions, with \$700 billion in assets, only 315 credit unions are participating in SBA lending program. While not all credit unions provide member business lending, we encourage business lending as a product to offer your members.

Your members, who are small business owners or members who may consider launching an entrepreneurial endeavor, need a partner they can count on for access to capital. Credit Unions are perfectly positioned to fulfill this role.

The average amount for an SBA guarantee on a credit union loan is \$94,721. So far this fiscal year, SBA has guaranteed \$45.8 million in member business loans for credit unions.

We work closely with the National Credit Union Administration on regulations to facilitate and open doors for credit unions. In 2003, SBA opened the loan guarantee program to permit not only community-chartered credit unions from participating, but **all** credit unions no matter their charter or field of membership.

Credit unions are often reaching those who have been left behind. Through the adoption of underserved areas into your fields of membership, and innovative lending products, you are providing an opportunity for the underserved to join the mainstream financial sector.

Because credit unions and banks are our distribution network, we need to have a process that simplifies your ability to market our products. We live in a world of ready access to information, so it is no surprise to me that SBA's loan growth is heavily driven by the products that are easiest to use and that motivate engagement.

We actually have a somewhat counterintuitive example of how to motivate engagement with SBA products. Since 2005, the agency has saved approximately \$100 million a year by eliminating taxpayer subsidies for the 7(a) loan programs. As a result, we don't need an appropriation to underwrite the program, which means the program doesn't run out of money during the fiscal year. This idea, whose inception is bipartisan – it was first proposed under President Clinton – is far more efficient for taxpayers. The reliability of the program encourages borrowers to dramatically grow the size and scope of the 7(a) program.

Why is this happening? Because our financial partners can aggressively market the product and not worry about the program being shut down late in the year. So, they are more committed to it. A slightly higher fee is not nearly as big an issue as the program's reliability. We see the same issue in programs where our guarantee is lower but automation is greater.

As I mentioned, SBA also works to help small businesses get federal contracts. In 2005, small businesses secured almost \$80 billion in prime contracts, from agencies and departments across the federal government. Of that, \$21 billion went to small, disadvantaged businesses.

The agency and its partners provide education to entrepreneurs, to help them handle the huge burdens that come with starting and running a business.

Last year, the agency gave business counseling and technical assistance to about 1.5 million entrepreneurs, and SBA's web site ([www.sba.gov](http://www.sba.gov)) recorded more than 26 million visits.

We partner with Small Business Development Centers, Women's Business Centers, and SCORE to make 14,000 counselors available to small business owners or those trying to start a business. We also have courses online through our Small Business Training Network.

While we are here to help all small businesses, there are sectors where SBA can have a particularly profound impact. One is in areas with higher unemployment and lower income levels—primarily inner city and certain rural areas. These areas need jobs creation, economic activity, and investment.

This focus is a natural extension of the progress we've made in our programs serving 8(a) and other socially and economically disadvantaged businesses and HUBZone businesses. It also reflects the value that ownership provides.

When you think about the spectrum of services SBA provides it is clear we are in a prime position to drive successful, sustainable, business formation in these markets which can change the game for many Americans.

We are looking to adapt our outreach, our products, and our partnerships to become more effective in underserved markets.

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The President has often said that the role of government is to create and sustain an environment which allows small businesses to flourish. In his State of the Union Message, he identified areas where entrepreneurs can cut costs -- health care, taxes, and trade being among them.

He said healthcare coverage must be affordable, accessible, and flexible, and renewed his call that basic, private health insurance be made available and affordable for more Americans.

Under the president's proposal, families with health insurance will not pay income or payroll taxes on the first \$15,000 in compensation and singles will not pay income or payroll taxes on the first \$7,500. At the same time, health insurance would be considered taxable income. This is a change for those who now have health insurance through their jobs.

The President's proposal will result in lower taxes for about 80 percent of employer-provided policies. More than 100 million Americans who now get health insurance through their job will see their tax bills go down. In addition, people who purchase their own health care will see their costs go down.

Two other components of the President's health care agenda that are great for individuals and small businesses are Health Savings Accounts and Association Health Plans. Both will make health care significantly more affordable for millions of Americans.

The President has also led by cutting taxes significantly, especially on capital. These cuts incentivize more saving and investment across the economy. Freeing up the dollar on the margin for investment by reducing taxes on capital is a tremendous benefit government can give small business.

On a related note, it may not be fashionable currently, but I want to stand up for opening new markets for trade. Trade enables producers of goods and services to move beyond the U.S. market of 300 million people to the world market of 6.2 billion. More than 95 percent of the world's population and two-thirds of the world's purchasing power is located outside of the United States, and more than 25 percent of our economy's growth comes from trade. Well over 200,000 small businesses are selling more than \$300 billion per year of goods and services in foreign markets, and since 2001, SBA's loans to exporters have increased 500 percent.

So, I'll wrap up here. Thank you for all you do to make a difference in the lives of millions of your members. There is a lot we can do together to expand entrepreneurship and ownership in our country. I look forward to working together to capture those opportunities.

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